

**Arizona Home Foreclosure Prevention Funding Corporation**

**Financial Statements  
June 30, 2011**

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## Independent Auditors' Report

To the Board of Directors  
Arizona Home Foreclosure Prevention Funding Corporation  
Phoenix, Arizona

We have audited the accompanying statement of financial position of Arizona Home Foreclosure Prevention Funding Corporation (the Organization) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Home Foreclosure Prevention Funding Corporation as of June 30, 2011, and the changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*Fester & Chapman P.C.*

September 27, 2011

Arizona Home Foreclosure Prevention Funding Corporation  
STATEMENT OF FINANCIAL POSITION  
June 30, 2011

ASSETS

Cash	<u>\$ 2,674,380</u>
Total assets	<u>\$ 2,674,380</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 80,321
Refundable advances	<u>2,593,949</u>
Total liabilities	2,674,270
Total net assets - unrestricted	<u>110</u>
Total liabilities and net assets	<u>\$ 2,674,380</u>

The accompanying notes are an integral part of these financial statements.

Arizona Home Foreclosure Prevention Funding Corporation  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
Year Ended June 30, 2011

Hardest Hit Fund revenue	\$3,661,051
Expenses:	
Program services:	
Permanent Modification Assistance	62,947
Second Mortgage Assistance	26,125
Unemployment Mortgage Assistance	<u>1,422,642</u>
Total program services	1,511,714
Management and general	<u>2,149,337</u>
Total expenses	<u>3,661,051</u>
Other income	
Interest Income	<u>110</u>
Change in net assets	110
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ 110</u></u>

The accompanying notes are an integral part of these financial statements.

Arizona Home Foreclosure Prevention Funding Corporation  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2011

Cash flows from operating activities	
Change in net assets	\$ 110
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts payable and accrued expenses	80,321
Refundable advances	<u>2,593,949</u>
Net cash provided by operating activities	<u>2,674,380</u>
Net increase in cash	2,674,380
Cash, beginning of year	<u>-</u>
Cash, end of year	<u>\$2,674,380</u>

The accompanying notes are an integral part of these financial statements.

Arizona Home Foreclosure Prevention Funding Corporation  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Arizona Home Foreclosure Prevention Funding Corporation (the Organization) is a not-for-profit organization incorporated in the State of Arizona in April of 2010. Operations did not begin until July 2010.

On February 19, 2010, President Obama announced \$1.5 billion in funding for innovative measures to help families in the states that have been hit the hardest by the aftermath of the burst of the housing bubble.

To receive funding from the Hardest Hit Fund (HHF), a program must satisfy the requirements for funding under the Emergency Economic Stabilization Act of 2008, as amended. The Organization was established as a not-for-profit organization for the purpose of acting as an eligible entity under the guidelines and receiving, holding, and disbursing funds under the requirements of the U.S. Treasury Department for the purpose of assisting Arizonans to prevent foreclosure of their homes.

The Organization provides the following program assistance:

Permanent Modification Assistance: help homeowners avoid foreclosure by permanently modifying a borrower's primary mortgage to achieve a monthly payment that does not exceed 31-32% of the borrower's monthly income depending on the agreement with the servicer. Loan modifications may include principal reduction (the amount of any principal reduction provided by HHF Program funds must be matched by a borrower's lender/servicer), interest rate reduction, and/or term extension.

Second Mortgage Assistance: help homeowners avoid foreclosure by eliminating a second mortgage if necessary to modify the terms of the primary loan, and to reduce the likelihood that a borrower will re-default under its primary loan as a result of the burden of a second mortgage.

Unemployment Mortgage Assistance: provide assistance for a set period of time and/or maximum dollar amount so a qualified borrower can search for work or obtain job training without fear of losing their home. The purpose of the program is to assist borrowers until they can obtain sufficient income to resume scheduled mortgage payments, or qualify for a modified mortgage payment.

The Organization entered into an agreement with the Arizona Department of Housing (ADOH), an agency of the State of Arizona, which is authorized to establish policies, procedures and programs to address the affordable housing issues confronting the state of Arizona including assistance in securing mortgage financing from public and private sector sources and to enter into contracts as necessary to accomplish its statutory powers. Under the agreement the ADOH provides administrative, operating, and programmatic support to the Organization in connection with all of its operations including, but not limited to the administration of the HHF Program funding from the U.S. Treasury Department, and to be reimbursed for specific related costs.

Arizona Home Foreclosure Prevention Funding Corporation  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Summary of Significant Accounting Policies:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of Not-for-Profit Entities. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no temporarily or permanently restricted net assets at June 30, 2011.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments: Financial instruments include cash, payables and related, and refundable advances. The Organization believes the carrying value of the financial instruments approximate their fair values.

Economic Dependency: The Organization receives all of its support from the HHF government grant. A significant reduction in the level of support from this source would have a material effect on the Organization's continuing operations.

Refundable Advances: HHF Program funding received from the U.S. Treasury Department is not recognized as revenue until related program assistance payments are made and Management and general expenses are incurred.

Income Taxes: The Organization qualifies as a tax exempt organization under Section 43-147(a)(4) of Arizona Revised Statutes, and is pending approval from the Internal Revenue Service as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, other than the minimum tax due to the State of Arizona, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to exempt purposes.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balance at one financial institution, BNY Mellon, as required by the U.S. Treasury Department. The balance, at times, may exceed the federally insured limits of \$250,000. The Organization has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk related to these accounts.



Arizona Home Foreclosure Prevention Funding Corporation  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 3 - RECOVERED PROGRAM ASSISTANCE**

The Organization requires that an Affordable Housing Restrictive Covenant and Agreement be entered into in order for an approved borrower to receive program assistance, whereby the Organization places a lien on the borrower's eligible property. The terms of these liens are such that if the borrower sells the property, all or a portion of the program assistance provided to the borrower is refunded back to the Organization at the time of closing, to the extent of any equity in the property at the time of sale. The liens are placed on the properties for a period of five years. For the year ended June 30, 2011, no program assistance has been recovered as a result of the Organization's lien rights.

Program assistance provided under the Unemployment Mortgage Assistance program that has been awarded to a participant is placed in escrow to be administered based on the terms of the agreement between the participant and the Organization. In the event that the participant becomes ineligible to continue receiving program assistance, the balance in the escrow account is remitted back to the Organization. As of June 30, 2011, approximately \$768,000 is in escrow.

**NOTE 4 - RELATED PARTY**

As indicated in Note 1, the Organization entered into an agreement with the ADOH, an agency which has common board members. Under the agreement the ADOH provides administrative, operating, and programmatic support to the Organization and is reimbursed for specific related costs. In the year ended June 30, 2011, approximately \$655,000 was paid to ADOH under the agreement.

**NOTE 5 – SUBSEQUENT EVENTS**

The Organization evaluated all events or transactions that occurred after June 30, 2011 through September 27, 2011, the date the Organization issued these financial statements.